

Why are so few people contributing to social security in Peru?

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Introduction

- Population aging in Peru (and elsewhere in Latin America)
- Population becoming more urbanized and more likely to live in small nuclear families.
- Less people able to work until old age and possibly, less likely to engage in inter-generational transfers to sustain old age.
- Looming old age financing crisis→
Government under pressure already to set up a minimum pension.



The % of people who contribute to
social security in Peru is very low



Affiliation is very low

Table 1. Are you affiliated to a social security system? By Gender
(Employed workers 25-55)

	Male	Female	All
Yes, AFP	30.1	19.3	25.7
Yes, National System	12.2	8.5	10.7
Yes, other or don't know where	3.2	1.1	2.4
No	53.4	70.4	60.3
Don't know/don't answer	1.2	0.6	0.9
Total	100	100	100
N	4,329	2,967	7,296



What is behind this low rate?

- Supply reasons:
 - Nature of the labor market (self-employment)
 - low enforcement/informality
- Demand reasons:
 - Low valuation of the system
 - Lack of knowledge of the system
 - Better alternative options



Methodology

- Fielding a new survey of 6,500 households in metropolitan Lima with individuals who were between 25-55 years old.
- Combining a number of objective and subjective questions to elicit info not attainable in traditional labor force surveys.



Some did in the past but not now

Table 5. Have you ever contributed to a pension plan? By gender

	Male	Female	All
No	74.5	89.1	80.8
Yes	25.5	10.9	19.2
Total	100	100	100
N	2,948	2,260	5,208

* for those that have not contributed in the last three months

Table 7. Why aren't you contributing? (First reason) By gender

I don't have enough money	35.9
My earnings are irregular, I can't afford paying every month	10.7
I don't know the system	20.7
I have been forced by my employer	4.4
The paperwork is too cumbersome	2.5
Comissions are too high	1.1
I can't withdraw my money upon emergencies	0.3
Pensions are too low, it is not worth it	0.5
I have to contribute too many years to get a minimum guaranteed pension	1.4
Contribution rate is too high	0.3
I don't trust AFP	4.8
I am already eligible for a minimum guaranteed pension	0.2
I am already covered by social programs	0.0
I save by other means	2.8
I do not have to (not mandatory)	6.9
I am not interested	4.4
Don't answer	1.8
Other	1.5
Total	100
N	5,208



In our ongoing work we are focusing on:

- Knowledge of the system
- Ability to pay as determinants of low affiliation rates.
 - These two reasons are even more important for women;
 - Lack of knowledge about system is more important for youth.



People don't know much about SS

Table 11. Percentage of correct answers on pension system questions

	% Correct answers
Men retirement age	41.3
Women retirement age	8.4
Contribution rate for pensions	12.2
How pensions are calculated in the AFP system	3.2
How pensions are calculated in the SNP system	8.2
Who pays fix commissions in the AFP system	16.5
N	7,296




The effect of pension literacy

- We create a synthetic index of pension literacy 0-6.
- Controlling for a large number of individual, household, and work characteristics, higher pension literacy is associated with a higher probability of contributing
- Instrumenting for possible endogeneity yields the same effect.



The effect of being poor:

- Strong income effect; ceteribus paribus, higher income → higher probability of contributing.
- Controlling for a large number of individual, hh, and work characteristics including wages, being in the first quintile reduces probability of contribution
- Financial literacy has a lower effect on individuals in first quintil, possibly due to earnings constrains.



Would you contribute if the benefits were the same and the contribution was...

3/4 of what it is now? *

yes	39.1
no	60.9
total	100

1/2 of what is now?*

yes	42.3
no	56.9
total	100

*People that do not contribute today



Many people have not thought much about old age

How much have you thought about how to finance your old age?

haven't thought about it	28.74
little	11.99
some	32.75
much	26.5
no answer	0.03
total	100



Conclusions:

- Ad-hoc surveys allow us to increase our knowledge on the supply/demand determinants of insufficient social protection.
- These surveys allow to explore a wide range of topics.
- Our current focus: Liquidity constraints and pension and financial literacy



Conclusions

- Poor individuals are too income constrained to participate in the system.
 - Higher progressivity of the system needed. May need full subsidy for the very poor.
- Quite importantly, lack of information reduces the urgency/perception of benefits of contributing.



Conclusions

- Reasons like being “excluded” by their employers rarely emerge as important
- Moral hazard or other concerns are not important either
- Lack of planning (myopia?) A reason to continue forcing contributions.